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Charles Darwin University

Final Examination

Family Name	
Given Name/s	
Student Number	
Teaching Period	Semester 1, 2018

ACT503 – Corporate Accounting	DURATION	
	Reading Time:	10 minutes
	Writing Time:	180 minutes

INSTRUCTIONS TO CANDIDATES

1. Write all answers in the Examination Answer Booklet provided.
2. This examination comprises six questions.
3. Marks for each question are not of equal value. Students are to answer all questions.
4. This examination is worth 60% of your final mark.
5. Start each question on a new page.

EXAM CONDITIONS

You may begin writing from the commencement of the examination session. The reading time indicated above is provided as a guide only.

This is a RESTRICTED OPEN BOOK examination

Any non-programmable calculator is permitted

No handwritten notes are permitted

Hard copy, unannotated English translation dictionary only

ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED
Relevant Legislation (Unannotated)	1 x 20 Page Book 2 x Scrap Paper

THIS EXAMINATION PAPER AND SUPPLIED MATERIALS ARE NOT PERMITTED TO BE REMOVED FROM ANY EXAMINATION VENUE IN ANY CIRCUMSTANCE. THIS EXAMINATION IS PRINTED DOUBLE-SIDED.

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Question 1. **Marks: 10**

Suggested time allocation: 18 Minutes

(a) Critique whether purchased goodwill is consistent with the criteria set for recognition of assets in the conceptual framework of accounting. (4 marks)

(b) What issues can arise in recognising purchased goodwill using the market value measurement method? (6 marks)

Question 2. **Marks: 15**

Suggested time allocation: 27 Minutes

Gemart Ltd acquired a printing machine on 1 July 2014 for $200,000. It is expected to have a useful life of 5 years, with the benefits being derived on a straight-line basis. The residual value is expected to be $nil.

Additional information:

- On 1 July 2016 the machine is deemed to have a fair value of $150,000 and a revaluation is undertaken in accordance with Gemart Ltd's policy of measuring property, plant and equipment at fair value.
- On 1 July 2018 the asset is sold for $120,000.
- Genmart Ltd prepares a single income statement. Genmart Ltd has always adopted the revaluation model for the machinery class of assets.
- Ignore the taxation impact of transactions and events.

Required:

(a) Provide the journal entries necessary to account for the above transactions and events from 1 July 2014 to 30 June 2015. (2 marks)

(b) Provide the journal entries necessary to account for the above transactions and events from 1 July 2015 to 30 June 2017. (6 marks)

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(c) Provide the journal entries necessary to account for the above transactions and events from 1 July 2017 to 30 June 2019. (6 marks)

(d) If Genmart was using the cost model, explain the effect on profits when the asset was sold on 1 July 2018. (1 marks)

Question 3. **Marks: 14**

Suggested time allocation: 25 Minutes

Castle Towers Ltd reported the following assets and liabilities in its draft balance sheet as at 30 June 2017, and profits before tax in its draft income statement for the year ending 30 June 2017. Both the financial year and tax year end on 30 June. The tax rate is 30 per cent, and the company meets its own tax obligations. The company has not yet completed its tax effect entries.

Required:
Provide the relevant journal entries to account for the tax effect of each of the following on 30 June 2017, showing your calculations:

(a) Reported machinery in the balance sheet with $80,000 carrying value. The notes to the accounts revealed that the cost of machinery was $100,000 and accumulated depreciation was $20,000. For tax purposes machinery is depreciated over four years on a straight-line basis, and there is no expected salvage value. (2 marks)

(b) Reported interest revenue that was received in advance, in the balance sheet of $50,000. The revenue for accounting purposes relates to the financial year ending 30 June 2018. The Australian Taxation Office taxes revenue when it is received. (2 marks)

(c) Reported provision for warranty repairs in the balance sheet of $20,000. No provision was paid during the year. There were no provisions for warranty repairs in previous years. (2 marks)

(d) Reported buildings were revalued at 30 June 2017 to $450,000. At that time the tax base of buildings was $350,000. (2 marks)

(e) Reported accounts receivable (net) in the balance sheet of $35,000. The notes to the accounts revealed that there was an allowance for doubtful debts of $5,000. During the year debts written off as not recoverable were $2,000. (2 marks)

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(f) Reported a loan in the balance sheet of $70,000. The repayment of the loan is not deductible.

(1 mark)

(g) Reported profits before tax for the year ending 30 June 2017 are $500,000. Notes to the accounts revealed that in the year ending 30 June 2016, the company incurred an accounting loss of $200,000. (3 marks)

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Question 4. **Marks: 12**

(a) Apple Rate Ltd (that is, the lessor) enters into a non-cancellable lease with a six-year term for an item of machinery, which has an expected useful life of nine years, with Zebra Ltd (that is, the lessee).

Apple Rate Ltd has indicated to Zebra Ltd that the lease is renewable for a further period of two years at commercial rates prevailing at the time of renewal.

The present value of the minimum lease payments is equal to 70 per cent of the fair value of the leased machinery at the commencement of the lease.

The remaining 30 per cent of the fair value represents residual value guaranteed by an independent third party, an investment bank. The investment bank is unrelated to Apple Rate Ltd or Zebra Ltd.

(6 marks)

(b) Roman Jubilee Ltd (that is, the lessor) enters into a non-cancellable with a five-year term for a plant, which has an expected useful life of nine years, with Zealous Ltd (that is, the lessee).

The lease is renewable for a further three years at commercial rates prevailing at the time of renewal.

The present value of minimum lease payments is equal to 60 per cent of the fair value of the plant at the commencement of the lease. The residual value in this agreement is not guaranteed by the Zealous Ltd, and the plant will revert to the Roman Jubilee Ltd.

Zealous Ltd has written a separate agreement put option on with Roman Jubilee Ltd.

This entitles, in five years' time for Roman Jubilee Ltd to put (or sell) the plant to Zealous Ltd, either to an amount equal to 80 per cent of the residual value of the lease or 80 per cent of the market value of the plant at that time, whichever is lower. (6 marks)

Required:

In relation to each of the above lease transactions, state the manner in which the lease should be classified by under AASB (Australian Accounting Standards Board) 117 Leases (using the preceding accounting standard);

(i) by the lessee, and

(ii) by the lessor.

Provide the reasons for your answers.

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Question 5. Marks: 49

The following financial information of Parem Ltd and its subsidiary Sublit Ltd has been extracted from their financial records at 30 June 2017.

Detailed reconciliation of opening and closing retained earnings	**Parem Ltd ($)**	**Sublit Ltd ($)**
Sales revenue	98,000	95,000
Cost of goods sold	55,000	85,000
Gross profit	43,000	10,000
Other revenue	2,000	-
Gain on sale of land		15,000
Depreciation expense	3,000	3,000
Other expenses	5,000	2,000
Profit before tax	37,000	20,000
Tax expense	11,100	6,000
Profit for the year	25,900	14,000
Retained earnings – 30 June 2016	120,000	45,000
Retained earnings – 30 June 2017	145,900	59,000

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Statement of financial position	Parem Ltd ($)	Sublit Ltd ($)
Shareholders' equity		
Retained earnings	145,900	59,000
Share capital	40,000	40,000
Other reserves	50,000	
Current liabilities		
Accounts payable	50,000	80,000
Deferred tax liability	30,000	40,000
Total liabilities and equity	*315,900*	*219,000*
Current assets		
Cash	60,900	79,000
Inventory	100,000	100,000
Non-current assets		
Land	30,000	-
Machinery-at cost	80,000	15,000
Accumulated depreciation	(20,000)	(10,000)
Investment in Sublit Ltd	60,000	
Deferred tax asset	5,000	35,000
Total assets	*315,900*	*219,000*

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Additional information:

- Parem Ltd acquired its 60% interest in Sublit Ltd on 1 July 2015 for $60,000. At that date the capital and reserves of Sublit Ltd were:

Share capital	$40,000
Retained earnings	$20,000
Total	$60,000

- The management of Parem Ltd measures the non-controlling interest in Sublit Ltd at fair value.
- At the date of acquisition, all assets of Sublit Ltd were stated at fair value except for machinery. The fair value of machinery was greater than the carrying value by $3,000. The cost of machinery was $15,000 and accumulated depreciation was $5,000, with a remaining useful life of 3 years.
- The opening inventory (Brickplaster) of Parem Ltd as at 1 July 2016 included inventory acquired from Sublit Ltd for $60,000, which had cost $40,000 to produce. This inventory was sold outside the group during the current period.
- During the year ending 30 June 2017, Sublit Ltd sold Cement to Parem Ltd for $50,000. The closing inventory in Parem Ltd includes Cement inventory acquired from Sublit at a cost of $5,000.
- During the year ending 30 June 2017, Sublit Ltd paid $5,000 management fees to Parem Ltd
- The income tax rate is 30%. Each entity pays its own tax.
- The current year is considered as year ending 30 June 2017.

Required:
Prepare and show:

(a) Consolidation journal entries for the elimination of Parem Ltd's investment in Sublit Ltd for the year ending 30 June 2017. Show detailed workings for each answer in a format that includes a description of each entry. (5 marks)

(b) Consolidation journal entry on the pre-tax sale of brickplaster inventory sold by Sublit Ltd Parem Ltd in the previous period and its associated tax effect in the current period which was sold outside the group in the year ending 30 June 2017. (4 marks)

(c) Consolidation journal entries for the fair value adjustment of the machinery in Sublit Ltd to be done at the date of acquisition to prepare group accounts for the ending 30 June 2017. (6 marks)

(d) Consolidation journal entries relating to depreciation resulting because of fair value adjustment of the machinery to prepare group accounts for the ending 30 June 2017. (3 marks)

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(e) Consolidation journal entries relating to tax effect result from the depreciation entry resulting because of fair value adjustment of the machinery to prepare group accounts for the ending 30 June 2017.

(3 marks)

(f) Consolidation journal entries Parem Ltd sold Cement to Sublit during the year ending 30 June 2017, the closing inventory, and the tax effect because of the closing inventory of Cement. (6 marks)

(g) Consolidation entry for Sublit Ltd paying management fees to Parem Ltd during the year ending 30 June 2017. (2 marks)

(h) Itemise and show the non-controlling interest including goodwill assigned on the acquisition date (i.e. 1 July 2015). (4 marks)

(i) Itemise and show the non-controlling interest in the movements in share capital and reserves between the date of Parem Ltd's acquisition of Sublit Ltd (1 July 2015) and the beginning of the current reporting period (1 July 2016). (5 marks)

(j) Itemise and show the non-controlling interests in equity item for the year ending 30 June 2017.

(7 marks)

(k) If we assume that Parem Ltd acquired its 100% interest in Sublit Ltd on 1 July 2015 for $60,000. At that date the capital and reserves of Sublit Ltd were: Share capital $40,000; Retained earnings $20,000. It is also assumed that there were no fair value adjustments necessary for assets in Sublit Ltd at the date of acquisition. Consolidation journal entries for the elimination of Parem Ltd's investment in Sublit Ltd for the year ending 30 June 2017. (4 marks)

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